

# Extension analysis— primary financial statements

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The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or the IFRS Foundation.

# Aims of this session

The staff started researching extensions created by foreign private issuers (FPIs). The aim of this session is to seek your views on how best to structure our research and how we should prioritise related updates to the Taxonomy.



Objectives and scope of extension analysis



Research methodology used



Early findings



Priorities for 2019



# Objectives and scope of extension analysis

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1. To review whether **further improvements** can be made to the IFRS Taxonomy to support high-quality tagging:



- new common reporting practice?
- new implementation guidance?
- improved data modelling?
- new formula?

2. The **focus** of our research is on the tagged **primary financial statements of FPIs** filed under the US SEC requirements.

We decided to **focus** our research **on the primary financial statements** of FPIs because:

- **ESMA** (and other regulators) require **only detailed tagging of the primary financial statements**;
- our findings may inform the **Board's current proposals** on the Primary Financial Statements project; and
- tagged data for FPIs is easily accessible.

## Question 1 for ITCG members

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Objectives and scope of extension analysis

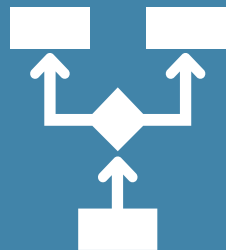
Do you agree that our initial focus should be on the tagged primary financial statements of FPIs?



# Research methodology used

# Research methodology used

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1. Extension analysis: bottom-up approach
  - 1A. data clustering methodology

slides 8–9



2. Extension analysis: top-down approach
  - 2A. review of fundamental relationships for the primary financial statements
  - 2B. review of extension axes created for the primary financial statements

slides 10–12



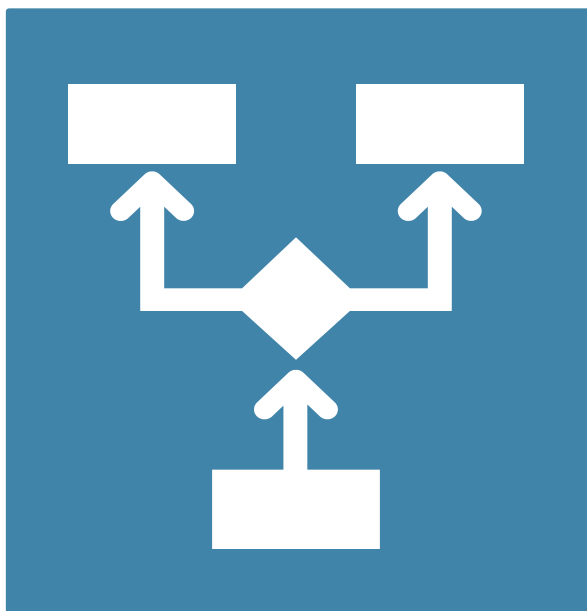
3. External stakeholders' feedback

slide 13

# 1. Extension analysis: bottom-up approach

Bottom-up approach: **clustering extensions** into different categories.

## Extraction of raw XBRL data



- We extracted extensions created by FPIs when tagging their **primary financial statements for the year 2017**.
- We found **9,302 unique extensions** created by **472 FPIs**.



# 1A. Data clustering methodology

All the unique **extensions are categorised by:**

- **industry group** based on the SIC codes of filers; and
- **the particular primary financial statement** to which the extensions relate.

Slides 16 and 17 summarise our findings.

Next step: Extensions with a different element name that seem to have the same accounting meaning are identified and grouped together. We have just started this analysis; we will share this findings at a future ITCG meeting.

## 2. Extension analysis: top-down approach

Top-down approach: analysis **focusing on particular type(s) of extensions.**

### Types of extension



- **extensions that break the fundamental calculation relationships** in the primary financial statements (see next slide for an example).
- **extension axes** created by FPIs in their tagged primary financial statements (see slide 12).

We are focusing on these types of ‘stand-alone’ extensions because:

- a preparer may find it **difficult or impossible to identify a suitable anchor**; and/or
- the anchor provided **may not provide sufficient information** to users to derive the accounting meaning which hinders automated processing.

# 2A. Review of fundamental relationships for the primary financial statements

- Extensions that break the fundamental calculation relationships

The IFRS Taxonomy has a few calculation relationships that are applicable to all (or a large number of) companies. For an example:

Cash flows from (used in) operating activities (A)	X
Cash flows from (used in) investing activities (B)	X
Cash flows from (used in) financing activities (C)	X
Effect of exchange rate changes on cash and cash equivalents (D)	X
Effect of consolidation adjustment on cash and cash equivalents (E)	X
<b>Increase (decrease) in cash and cash equivalents (A+B+C+D+E)</b>	<b>X</b>



Anchoring this extension to 'increase (decrease) in cash and cash equivalents' may not provide sufficient information for a user to understand the accounting meaning of the extension.

 Taxonomy element       Extension element

## 2B. Review of extension axes created for the primary financial statements

Filers may **use extension axes in the tagging** of their primary financial statements. Slide 21 provides some examples.

The **current solutions** for anchoring extensions **does not handle extension axes**. Therefore, this can make it **difficult for users to consume** extension axes.

### 3. External stakeholders' feedback



To understand the challenges and difficulties of tagging the primary financial statements, we gathered feedback from external stakeholders.

1. Outreach with **major tagging consultants**.

2. Comments received through our **website query service and by email**.

3. **Comment letters** on our documents which are open for public consultation.

## ? Question 2 for ITCG members

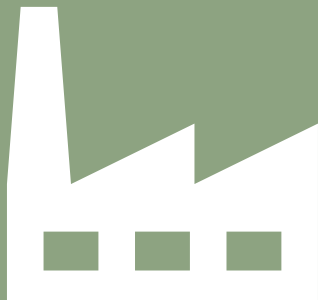
### Research methodology used

- a) Do you agree with the research methodology we are using for the extension analysis?
- b) How can we improve our analysis of extensions?



# Early findings

# 1A. Clustering of extensions by industry group



- These extensions are created for the primary financial statements.
- **The average number of extensions used per FPI is significantly higher in banks and insurance.**
- External stakeholders have also told us that the extension rate for the financial sector is relatively high.

Industry group	Number of FPIs	Number of extensions	Average extensions per FPI	Percentage of extensions
<b>Banks</b>	<b>33</b>	<b>1,496</b>	<b>44</b>	<b>16%</b>
<b>Insurance</b>	<b>6</b>	<b>210</b>	<b>35</b>	<b>2%</b>
Transportation, Communications, Utilities and Sanitary service	85	2,093	25	23%
Extractive activities	113	1,788	16	19%
Manufacturing	169	2,527	15	27%
Services	38	511	13	5%
Others	28	677	24	8%
<b>Total</b>	<b>472</b>	<b>9,302</b>	<b>—</b>	<b>100%</b>



# 1A. Clustering of extensions by primary financial statement



A significant number of extensions are created for the statement of cash flows.

Primary financial statement	Percentage of extensions	Number of extensions
<b>Statement of cash flows</b>	<b>45%</b>	<b>4,217</b>
Statement of profit and loss and other comprehensive income	20%	1,857
Statement of financial position	19%	1,745
Statement of changes in equity	16%	1,483
<b>Total</b>	<b>100%</b>	<b>9,302</b>

## 2A. Analysis of fundamental relationships

We have **started this approach for the statement of cash flows**, applying the following calculation relationship:\*

Cash flows from (used in) operating activities (A)	X
Cash flows from (used in) investing activities (B)	X
Cash flows from (used in) financing activities (C)	X
<b>Increase (decrease) in cash and cash equivalents before effect of exchange rate changes (D) = (A+B+C)</b>	<b>X</b>
Effect of exchange rate changes on cash and cash equivalents (E)	X
<b>Increase (decrease) in cash and cash equivalents (F) = (D+E)</b>	<b>X</b>

\*In our analysis we had to consider the variety in presentation patterns, particularly the variety relating to discontinued operations. The IFRS Taxonomy elements shown on this slide are for illustrative purposes only and will change according to the specific presentation pattern being used.

## 2A. Analysis of fundamental relationships (cont'd)

In most cases, this calculation relationship works fine. However, there are few observations which are as follows:

Errors	Description	Number of filers
Incorrect use of IFRS Taxonomy element	A few filers used an incorrect element. A common error is the use of the IFRS Taxonomy element 'Increase (decrease) in cash and cash equivalents' which is defined as 'after the effect of exchange rate changes' to tag an amount that represents an 'Increase (decrease) in cash and cash equivalents before the effect of exchange rate changes'.	Around 12%
Incorrect use of signs	A small number of filers used an incorrect sign.	Less than 1%

## 2A. Analysis of fundamental relationships (cont'd)

We found **the following extension elements** that 'break' the fundamental relationship:

- a result from exposure to inflation;
- reclassification of assets held for disposal;
- the effect of a change in consolidation (inclusion/exclusion of significant/insignificant subsidiaries);
- effect of changes in consolidation methods and others on cash and cash equivalents; and
- transition effect of first time application of new IFRS Standard where comparative information has not been modified.

Next step: To undertake an in-depth review of these extension elements to identify whether they should be added to the IFRS Taxonomy (although these elements do not meet our existing criteria for common reporting practice). We will share our review with you at a future ITCG meeting.

## 2B. Analysis of extension axes

We identified all the axes used by the FPIs in the tagging of their primary financial statements.

Our analysis shows that **more than 70%** of the axes used are **extension axes**. A few examples are:

Location Axis	Currencies Axis
Expenses By Nature Axis	Related Party Transaction Axis (*)
Consolidated Entities Axis	Geographical Regions Axis (*)

\*Based on label only, and prior to an in-depth analysis, we think that an IFRS Taxonomy axis could have been used.

**Next step: To analyse these extension axes to decide whether they should be added to the IFRS Taxonomy.**

## ? Question 3 for ITCG members

### Early findings

Do you have any comments or questions on our early findings?



# Priorities for 2019

Based on our early findings and stakeholders' feedback, we propose to:

- **extend the analysis of fundamental relationships** to all the primary financial statements;
- **prioritize the bottom-up approach** (grouping of extensions based on labels) for banking and insurance industries and the statement of cash flows; and
- to do **an in-depth analysis of comments received that relate to the tagging of primary financial statements** but which are not being addressed by the Board's current proposals for the Primary Financial Statements project (see next two slides)

In addition, we also propose to do research on tagging of disclosures related to **IFRS 7 *Financial Instruments: Disclosures*** and **IAS 19 *Employee Benefits***.



### 3. External feedback: possible missing elements

Primary financial statement(s)	Description
All	List of elements that may qualify as common reporting practice
Statement of profit and loss and other comprehensive income	Missing elements for a breakdown of 'costs of goods sold', for example, 'cost of goods sold excluding depreciation' or 'cost of goods sold - direct operating expenses'
Statement of financial position	Missing elements for: <ul style="list-style-type: none"><li>• financial instruments that have characteristics of equity and liability</li><li>• borrowings from non-financial institutions</li></ul>

# 3. External feedback: possible missing elements (cont'd)

Primary financial statement(s)	Description
Statement of cash flows	Missing elements: <ul style="list-style-type: none"><li>• movements in working capital</li><li>• impact of changes in consolidation scope</li><li>• impact of reclassifications to assets held for sale</li></ul>
Per share data	How to tag ADR (American Depositary Receipts) related per share data?
Statement of changes in equity	How to tag 'equity at the beginning of the period' when a company reports two values (before and after adjustments)  Missing elements: <ul style="list-style-type: none"><li>• members on the 'Retrospective application retrospective restatement' axis to identify specific IFRS Standards</li><li>• equity opening balance adjustments at transitioning date</li></ul>

## ? Question 4 for ITCG members

### Priorities for 2019

Based on your experience of using and preparing the XBRL filings

- a) Do you agree with the staff proposal on slide 24?
- b) Are there any other topics you would like to add to the list on slides 25 and 26?

# ? Questions for ITCG members

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## Question 1: Objectives and scope of extension analysis

Do you agree that our initial focus should be on the tagged primary financial statements of FPIs?



## Question 2: Research methodology used

- a) Do you agree with the research methodology we are using for the extension analysis?
- b) How can we improve our analysis of extensions?



## Question 3: Early findings

Do you have any comments or questions on our early findings?



## Question 4: Priorities for 2019

Based on your experience of using and preparing the XBRL filings

- a) Do you agree with the staff proposal on slide 24?
- b) Are there any other topics you would like to add to the list on slides 25 and 26?

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